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ORIGINAL

January 26, 1998

Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

Re: Amendments to Uniform System of Accounts for Interconnection, CC Docket No. 97-212

Dear Ms. Roman Salas:

Enclosed herewith for filing are the original and eleven (11) copies of MCI Telecommunications Reply Comments regarding the above-captioned matter.

Please acknowledge receipt by affixing an appropriate notation on the copy of the MCI Reply Comments furnished for such purpose and remit same to the bearer.

Sincerely yours,

Don Sussman

Enclosure
DHS

No. of Copies rec'd 0 + 11
List A B C D E

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Amendments to Uniform System of Accounts for Interconnection	)	**CC Docket No. 97-212**
	)	

REPLY COMMENTS OF MCI TELECOMMUNICATIONS CORPORATION

I. Introduction

MCI Telecommunications Corporation respectfully submits these Reply Comments in the above-captioned proceeding. On December 10, 1997, MCI and fourteen parties filed comments in response to the Notice of Proposed Rulemaking (Notice) in CC Docket No. 97-212, released October 7, 1997. In the Notice, the Commission proposed new Part 32 accounts and subsidiary record keeping requirements to record the revenues and expenses related to providing and obtaining interconnection.[1]

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[1] The Commission's record keeping requirements are intended to: (1) facilitate uniform reporting requirements among ILECs with respect to interconnection and infrastructure sharing arrangements; (2) enable the Commission to monitor and assess the economic impact of the development of local exchange and exchange access competition and the deployment of advanced telecommunications capabilities; (3) ensure that ratepayers do not bear the costs of ILECs' competitive activities; and (4) assist Commission decision-making concerning ILEC petitions for forbearance from regulation pursuant to section 10 of the Act by making information concerning ILEC performance related to these services accessible and verifiable. Notice at ¶6.

II. The Commission Has Clear Authority to Create a Uniform System of Accounting for ILECs to Record Revenue and Expenses related to Interconnection Elements.

Section 251 of the Telecommunications Act of 1996 (the Act) directs incumbent local exchange carriers ("ILECs") to take several steps to open their networks to competition, including: providing interconnection; offering access to unbundled elements of their networks; furnishing transport and termination of competitors' traffic; and making their retail services available to resellers at wholesale rates.[2] Currently, no specific Part 32 accounts have been designated to record the amounts associated with interconnection arrangements. Consequently, in the Notice, the Commission proposes new Part 32 accounts and subsidiary record keeping requirements to record the revenues and expenses related to providing and obtaining interconnection.

In Comments filed December 10, 1997, Ameritech, United Utilities, and the United States Telephone Association (USTA) argue that in light of the 8th Circuit recent Iowa Utilities decision,[3] the Commission lacks jurisdiction to propose accounting regulations that relate primarily to local exchange services.[4]

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[2] 47 U.S.C. §251(c).

[3] Iowa Utilities Board v FCC, 120 F. 3d 753 (8th Cir. 1997) (Iowa Utilities Decision).

[4] United Utilities Comments at 3, Ameritech Comments at 3, USTA Comments at 6.

Even if the 8th Circuit's ruling is upheld or the pending cert application is denied, establishing Part 32 accounts clearly falls under the Commission's jurisdiction. Section 220(a) of the Communications Act of 1934 clearly states that:

> The Commission may, in its discretion, prescribe the forms of any and all accounts, records, and memoranda to be kept by carriers subject to the Act, including the accounts, records, and memoranda of the movement of traffic, as well as the receipts and expenditures of moneys.[5]

Additionally, Section 220(b) states:

> The Commission shall, by rule, prescribe a uniform system of accounts for use by telephone companies. Such uniform system shall require that each common carrier shall maintain a system of accounting methods, procedures, and techniques (including accounts and supporting records and memoranda) which shall ensure a proper allocation of all costs to and among telecommunications services, facilities, and products (and to and among classes of such services, facilities, and products) which are developed, manufactured, or offered by such common carrier.[6]

Nothing in the Act alters these sections. The pricing issues in the 8th Circuit's decision are limited to which jurisdiction is entitled to set prices under section 251(c), and in no way disable the Commission from organizing a system of accounts to ensure that local interconnection costs are not intermixed with other ILEC costs. A fundamental and well-established principle of common carrier rate regulation is that states can and do make adjustments to the post-separations revenue requirements. States have also imposed price cap regulation on ILEC intrastate rates, which break the direct cost linkage between accounting costs and prices that is found in rate of return regulation. There is nothing

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[5] 47 U.S.C. §220(a)

[6] 47 U.S.C. §220(b)

about establishing a new account that interferes with a state's jurisdiction to regulate ILEC prices at its discretion under state law. Thus, contrary to Ameritech's, United Utilities', and USTA's contention, the Commission clearly has both the authority and the obligation to establish a uniform system of accounting requirements for telephone companies, including requirements for interconnection.

III. The Commission's Proposed Uniform Accounting Requirements Should Not Be Imposed on New Entrants

GTE, United Utilities, Cincinnati Bell, and USTA contend that the Commission should not impose uniform accounting requirements for the treatment of interconnection on ILECs because such requirements would be unduly administratively burdensome.[7] Although these parties complain that the Commission's proposal would require additional accounts or subaccounts to be created, it is clear that the public interest benefits associated with the Commission-proposed accounting requirements for interconnection far outweigh the minimal costs of amending the cost accounting system.[8] The additional administrative requirements is the best insurance that costs of those parts of the network

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[7] GTE Comments at 1, United Utilities Comments at 4, Cincinnati Bell Comments at 1, USTA Comments at 4.

[8] Based on its experience in Washington, the Staff of the Washington Utilities Commission believes the Commission-proposed new accounts will be useful without imposing undue burdens on the ILECs. See WUC Comments at 1-2.

supporting local interconnection are not intermingled with access, and will allow the Commission to monitor and track the development of local competition more accurately.[9]

Similarly, Bell Atlantic argues that collecting data from just one segment of the industry -- the ILECs -- provides only one part of the picture. Bell Atlantic claims that if the Commission is to rely on revenues and expenses related to interconnection to track the development of competition in local markets, it should also obtain such information from new entrants in order to obtain a full view of the extent of interconnection and local competitive entry. Such a position is clearly aimed at imposing unnecessary costs on new entrants in order to delay their entry into local markets.

In a series of orders delineated in footnote 5 of the Notice, the Commission has established a distinction between carriers with market power and those without.[10] In these orders, the Commission has concluded that carriers without market power could not charge rates or engage in practices that contravene the requirements of the Act because their customers could always switch to another provider.[11] Clearly new entrants in the

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[9] GTE argues that if it is required to provide to the Commission detailed information on interconnection revenues and expenses, it can only do so in a confidential manner due to the competitive sensitivity of the information (GTE at 3). GTE has provided no evidence to support its bald assertion. As MCI repeatedly has stated, and as General Communications Inc. (GCI) states in its comments in the instant proceeding (GCI at 2) , the Commission must clarify that all information reported by the ILECs is open and accessible to all parties. Without open and accessible records, the information can not be properly monitored and interested parties may not be able to comment fully in public proceedings.

[10] Section 220(h) of the Communications Act allows the Commission to prescribe different requirements for different classes of carriers. See 47 U.S.C. §220(h).

[11] Notice at n. 5.

local exchange market have no market power and should not be regulated the same as dominant monopoly ILECs. Moreover, since new entrants do not have a captive ratebase or regulated services where they would be virtually guaranteed to recover costs, there is no concern that they could shift expenses associated with competitive services to monopoly regulated services. This risk only stems from ILEC dominant market power.

III. Ameritech Provides No Evidence that Commission Fears of Cross-Subsidization Between Regulated and Nonregulated Services Is Mitigated by Growing Competition.

Ameritech argues in its comments that uniform accounting mechanisms for interconnection are not necessary because growing competition will mitigate the ILECs' ability to shift costs from nonregulated to regulated services.[12] Ameritech has provided no evidence that sufficient competition now exists to mitigate these Commission concerns; nor has it provided evidence that sufficient competition will exist in the near future.

The Commission is correct to be concerned that ILEC market power, which exceeds 99 percent, allows them the ability to shift costs between regulated and non-regulated services, and among services generally. The Commission's recent rejection of Ameritech's Michigan 271 Application (to provide in-region long distance service) illustrates that Ameritech has not sufficiently opened its market to competition.[13]

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[12] Ameritech Comments at 4-5.

[13] Federal Communications Commission Memorandum Opinion and Order in the Matter of the Section 271 Application of Ameritech Michigan to Provide In-Region,

Additionally, as the attached order illustrates, Ameritech itself has a history of shifting expenses from regulated to non-regulated services. Stringent uniform accounting mechanisms for interconnection are clearly required and are in the public interest. Moreover, uniform accounting mechanisms are also important to ensure that there is not cross-subsidy among services.[14]

IV. The Commission's Proposed Accounting Modifications Are Consistent with the Telecommunications Act of 1996

Ameritech and Cincinnati Bell contend that the mechanisms that the Commission proposes in its Notice for accounting for interconnection are contrary to the intent of the Telecommunications Act of 1996 because they increase the regulatory environment in which ILECs operate.[15] They claim that the Act calls for a more "de-regulatory" environment.

The Act is the first major revision of telecommunications law since 1934. It removes legal and regulatory barriers which historically have prevented competitors from entering local telecommunications markets, and entrusted the Commission to establish rules that would open all telecommunications markets to competition. The Act directs

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Inter-LATA Services in Michigan, CC Docket No. 97-137 (August 19, 1997).

[14] See, Re: Classification of Remote Central Office Equipment for Accounting Purposes, 7 FCC Rcd 6075; 1992 FCC LEXIS 5174; 71 Rad. Reg. 2d (P & F) 135, September 8, 1992 Released; Revised September 8, 1992, which was issued because the Commission believed that some carriers were improperly classifying remote switches as circuit equipment rather than as switching equipment as required under Part 32.

[15] Ameritech Comments at 11, Cincinnati Bell Comments at 2.

ILECs to take several steps to open their networks to competition, including: providing interconnection; offering access to unbundled elements of their networks; furnishing transport and termination of competitors' traffic; and making their retail services available to resellers at wholesale rates.[16]

Increased competition in telecommunications markets is clearly in the public interest, as consumers enjoy benefits in the form of lower prices, greater choice, and technological innovation. Requiring that ILECs accurately track their revenues and expenses for interconnection is necessary for competition to develop. These accounting mechanisms ensure that ILECs do not shift costs from nonregulated services to regulated services. Contrary to the claims of Ameritech and Cincinnati Bell, the Commission's proposal to establish specific accounting mechanisms for ILECs to record interconnection revenues and expenses is consistent with both the intent of the Act and the requirements of the Communications Act of 1934.

V. Commission Accounting Rules Must Not Insulate ILECs From Competition

In the Notice, the Commission proposes that ILECs should record in subsidiary records the total amount of costs based on the revenues received for providing interconnection, and that the apportionment of these costs should be consistent with cost studies underlying the charges for these services and elements.[17] The Commission offers

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[16] 47 U.S.C. §251(c).

[17] Notice at ¶14.

the example that, if the appropriate cost study identifies network support expense as 10 percent of the total cost of the unbundled loop, then an amount equal to 10 percent of the revenue attributable to unbundled loops would be recorded in subsidiary records in the network support expense accounts.[18] Ameritech, Bell Atlantic, and Southwestern Bell Telephone correctly argue in their comments that revenue should not be used as an allocator. However, these carriers are incorrect in arguing that the use of revenue as an allocator will leave embedded costs in the interstate ratebase that they may not be able to recover through interstate rates.

The unbundled network element rates fully compensate ILECs for unbundled elements including a reasonable profit. The total embedded costs for the facilities to provide UNEs should be removed from the ILECs' retail and access rates, and assigned to the UNEs. The majority of these costs are due to ILEC inefficiencies. However, whatever their source it is not good policy to hide these costs in the reported costs for other services, where they may distort the market for those services. All cost should be clearly identified and assigned to the service(s) which cause them. Any difference between rates for a service and the reported costs is a rate-making or public policy, not an accounting issue.

Consequently, the Commission's proposed rule should be modified so that all embedded costs associated with facilities purchased by new will be entrants explicitly identified, so they can be removed from regulated services.

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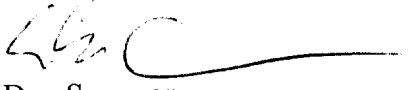
[18] Notice at n.31.

VI. Conclusion

WHEREFORE, MCI Telecommunications Corporation respectfully requests that the Commission adopt the positions raised above.

Respectfully submitted,

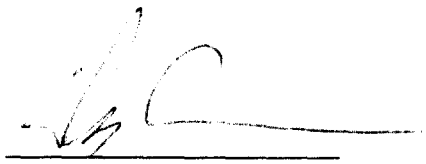


Don Sussman
MCI Telecommunications Corporation
1801 Pennsylvania Avenue, NW
Washington, DC 20006

January 26, 1998

STATEMENT OF VERIFICATION

I have read the foregoing and, to the best of my knowledge, information, and belief, there is good ground to support it, and it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on January 26, 1998.



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Report No. CC 95 -37 COMMON CARRIER ACTION June 23, 1995

FCC, OHIO AND WISCONSIN COMMISSIONS COMPLETE JOINT AUDIT -- ENTER INTO CONSENT DECREE CONCERNING AMERITECH AFFILIATE TRANSACTIONS

The FCC and the public service commissions of Ohio and Wisconsin have completed a joint audit of Ameritech affiliate transactions and negotiated a Consent Decree with the Ameritech Telephone Operating Companies (AOCs) to resolve issues raised by the audit. Pursuant to the Consent Decree, the FCC and the state commissions have agreed to refrain from pursuing enforcement actions against the AOCs. Ameritech has agreed to make serious and substantial changes to its documentation regarding affiliate transactions accounting and reporting practices. Ameritech also has agreed to pay $375,000 to the U.S. Treasury, $200,000 to Ohio, and $100,000 to Wisconsin.

The Commission currently has in place rules to govern transactions between regulated carriers and their non-regulated affiliates. These rules have become more important over the past few years as telecommunications carriers have diversified to offer a wide variety of regulated and nonregulated products and services. The Commission's affiliate transactions rules, adopted in the Commission's 1986 Joint Cost proceeding, provide a valuation methodology for such transactions and govern the apportionment of carriers' costs between regulated services and nonregulated activities. The carriers are required to use these cost apportionment rules to develop cost allocation manuals (CAMs) which describe in detail how their costs are apportioned between regulated and nonregulated operations. The CAMs also identify each affiliate that engages in transactions with a carrier, and describe the nature, terms and frequency of those transactions. CAMs are available for public inspection at the FCC.

A joint audit team, including Commission auditors and auditors from the public service commissions of Ohio and Wisconsin, examined transactions between the AOCs and their nonregulated affiliate, Ameritech Services, Inc. (ASI) during 1992. (ASI provides centralized management and various product and services support for the AOCs.) The audit team's objective was to evaluate compliance with the Commission's affiliate transactions rules, and specifically, to determine whether ASI's costs are properly identified and allocated to regulated and nonregulated accounts. The audit team found that, in many cases, Ameritech did not provide or could not produce sufficient documentation to allow a

(over)

determination of whether the costs associated with ASI services provided to the AOCs had been properly allocated between regulated and nonregulated operations. In other cases, the audit team concluded that Ameritech had not properly allocated such costs.

The Commission found that resolving the issues in the joint audit by adopting the Consent Decree was in the public interest. The joint audit concerned carrier compliance with Commission affiliate transaction rules. The audit findings led to negotiations with Ameritech that produced a settlement agreement that addressed the auditors' documentation concerns. This forestalled the need to take enforcement action. Pursuant to the Consent Decree, the parties also have agreed to release the Joint Audit Report, including Ameritech's response to the joint audit team's findings. The Commission adopted an Order authorizing release concurrent with adoption of the Consent Decree.

Actions by the Commission June 9, 1995, by Memorandum Opinion and Order and Consent Decree Order (FCC 95-222, 95-223). Chairman Hundt, Commissioners Ness and Chong, with Commissioners Quello and Barrett concurring in the result and Commissioner Barrett issuing a separate statement.

- FCC -

News Media contact: Susan Lewis Saller at (202) 418-1500.
Common Carrier Bureau contact: Thomas Beers at (202) 418-0872.

David Fiske

Before the
FEDERAL COMMUNICATIONS COMMISSION FCC 95-223
Washington, D.C. 20554

In the Matter of	)	
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	)	
AMERITECH	)	AAD 95-75
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CONSENT DECREE ORDER

Adopted: June 9, 1995 Released: June 23, 1995

By the Commission: Commissioner Quello concurring in the result; Commissioner Barrett concurring and issuing a statement.

1. This Commission and the National Association of Regulatory Utility Commissioners (NARUC) initiated a joint review of affiliate transactions involving the Regional Bell Operating Companies, including Ameritech. Pursuant to that effort, a joint audit team consisting of auditors from the Commission, the Public Utilities Commission of Ohio (Ohio), and the Public Service Commission of Wisconsin (Wisconsin) conducted a joint audit of transactions between the Ameritech Operating Companies (AOCs) and their affiliate, Ameritech Services, Inc. (ASI)[1] in 1992. The joint audit team prepared a Joint Audit Report at the conclusion of the audit.

2. The Joint Audit Report concluded that ASI failed to provide the joint audit team with adequate documentation to support the assignment of many costs to the AOCs and to other affiliates. This included a lack of written procedures that describe how ASI separates costs directly incurred by the AOCs from other costs, including overheads, that are not directly apportioned, and a lack of documentation showing how costs assigned to the AOCs benefitted ratepayers. The Joint Audit Report also alleged that certain misclassifications of costs by ASI resulted in over allocation of costs to regulated ratepayers, including costs associated with research and development of new products or services that were allocated entirely to regulated ratepayers even though this research and development could have nonregulated applications.

[1] ASI acts as a central purchasing agent for the AOCs, and also provides various management and product support services. See Attachment A, pp. 15-20.

Ameritech contests and denies each of the Joint Audit Report's conclusions.

3. This Commission, Ohio and Wisconsin, and Ameritech, have reached an Agreement with respect to these audit findings. The terms and conditions of this agreement are contained in the attached Consent Decree.

4. We have reviewed the terms of the Consent Decree and evaluated the circumstances of the case. We believe the public interest would be served by approving the Consent Decree, the terms of which are incorporated by reference.

5. Accordingly, IT IS ORDERED that the Consent Decree, incorporated by reference herein and attached to this Order, IS HEREBY ADOPTED, and the Secretary shall sign such Consent Decree on behalf of the Commission.

6. IT IS FURTHER ORDERED that this Order is effective upon execution of the Consent Decree by all parties to the Agreement.

FEDERAL COMMUNICATIONS COMMISSION

William F. Caton,
Acting Secretary

CONSENT DECREE

1. This is a Consent Decree entered into by the Federal Communications Commission ("FCC"), the Public Utilities Commission of Ohio ("PUCO"), the Public Service Commission of Wisconsin ("WPSC") and the Ameritech Operating Companies ("AOCs" or "Ameritech")[1] (collectively referred to sometimes as the "Parties").

2. Auditors from the FCC, PUCO and WPSC initiated a joint audit of transactions between the AOCs and their affiliate, Ameritech Services, Inc. ("ASI") in 1992 ("Joint Audit").

3. The Joint Audit had two general objectives. One was to evaluate compliance with the FCC affiliate transaction rules. The other was to determine whether any noncompliance with these rules had adversely affected interstate and intrastate telephone ratepayers through the flow of cross-subsidies to nonregulated affiliates.

4. The report of the Joint Audit team and the parties' responses to the report are attached to this Consent Decree as Attachment A. The positions of the parties are as follows:

a. The Joint Audit team maintains that ASI failed to provide to the audit team adequate documentation to support the assignment of many of its costs. This included a lack of written procedures that describe how ASI separates direct and indirect costs. It also included lack of regulated ratepayer benefit documentation as well as misclassifications of costs that resulted in over allocations of costs to regulated services. Moreover, the Joint Audit team maintains that ASI established several work profiles designed to study new products or services that were allocated entirely to regulated ratepayers even though they could have future nonregulated applications. These points and others detailing the Joint Audit team's findings are included in the audit report included in Attachment A.

b. Ameritech contests all findings in the audit report. Ameritech asserts that it made proper cost allocations and provided more than sufficient written documentation of those allocations to the audit team. Ameritech notes that ASI did little work for non-owners thereby limiting even the potential for misallocation, and that two independent accounting firms -- one working on behalf of the Illinois Commerce Commission -- conducted similar audits for the same period and found no significant discrepancies. These points and others disputing all of the findings of the audit report are detailed in Ameritech's response to the audit report included in Attachment A.

5. The FCC, PUCO, WPSC and AOCs agree that the expeditious resolution of issues raised by the Joint Audit in accordance with the terms of this Consent Decree is in the public

1. The Ameritech Operating Companies are: Illinois Bell Telephone Company, Indiana Bell Telephone, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell, Inc.

interest.

6. Accordingly, and in consideration of the agreement of the FCC, PUCO and WPSC to conclude action on the Joint Audit on the terms set forth in this Consent Decree, the AOCs agree to act as specified in paragraphs 6(a) through 6(d) of this Consent Decree:

a. As a result of the Joint Audit, Ameritech and the audit team have developed mutually agreeable documentation, which will contain a clearer description of work performed by ASI, an identification of Part 32 accounts to which costs are assigned, an identification of Part 64 cost allocations and an explanation of allocation methodology, and a more specific explanation of Ameritech's rationale for its accounting and allocation decisions. A specific explanation, at a minimum, includes a statement of the benefit to AOCs' regulated operations when costs are recorded in regulated accounts. In the future, ASI will maintain this written documentation so that it will be readily available as a basis for review of the reasonableness of ASI's regulated and nonregulated cost allocations. More specifically, as ASI provides the accounting classifications recorded for ASI's billings on the books of the AOCs, ASI will make the following changes to its accounting practices:

(1.) To the extent appropriate, ASI will record in account 6727, Research and development, the costs associated with all trials of new products;

(2.) ASI will develop and implement written procedures for classifying work profiles as direct and indirect work profiles. These procedures must include a list of work profiles and bill lines that are direct or indirect and specify the conditions under which the classification can be changed from one category to another.

(3.) ASI will have centralized documentation that covers all aspects of each work profile. This documentation will include:

(a.) a detailed explanation of the nature of the activity, and any intended product or service that would be provided by the AOCs;

(b.) the rationale for the determination of the accounting and cost pool classifications for the activity;

(c.) a summary indicating which AOCs and other subsidiaries are service recipients;

(d.) the budget and actual costs for the work profile and documentation of any material over or under budget situations;

(e.) the projected and actual delivery dates for output from the activity;

(f.) a description of any efforts to compare the costs of obtaining the activity from outside sources with the internal costs of the activity.

from the FCC, PUCO and WPSC will have the opportunity to review the independent auditor's plan and recommend revisions, if appropriate, before the compliance audit begins. The same proprietary agreements in effect for the Joint Audit would be used for the compliance audit, provided, however, that if it becomes necessary in the future to modify the proprietary agreements to accommodate changes in applicable statutes, rules or regulations, the Parties agree to negotiate those modifications in good faith.

(3.) Ameritech will have an independent auditor perform a study quantifying the impact on the Cost Allocation Manual (CAM) wages and salaries allocators caused by the movement of employees from the AOCs to ASI, as described in Attachment A. The results of the study shall be submitted with the 1996 independent auditor's report to be filed with the FCC in accordance with 47 CFR §64.904.

c. Because the lack of sufficient written documentation for the AOCs' cost allocations added extra time, expense and inconvenience to the Joint Audit team's efforts, the AOCs agree that Ameritech shall voluntarily make certain payments to the United States, Ohio and Wisconsin. Accordingly, and in connection with the interstate aspects of that audit, Ameritech shall pay $375,000 to the Treasury of the United States, and, in connection with the intrastate aspects of the audit, $200,000 to the Ohio State Treasurer's General Fund, and $100,000 to the Wisconsin Advanced Telecommunications Foundation established under s. 14.28, Wis. Stats. These voluntary contributions will be recorded in Account 7370, Special Charges, and will be treated for income tax purposes as if it were subject to Section 162(f) of the Internal Revenue Code. Ameritech shall make these payments within ninety (90) days after the FCC, PUCO and WPSC enter final orders adopting this Consent Decree, or, if an appeal is taken, within ninety (90) days after those final orders have been affirmed in all material parts on appeal.

d. The FCC, PUCO, WPSC and the AOCs agree that the Joint Audit Report, included here as Attachment A, should be publicly released. Therefore, the AOCs waive any right to contest release to the public of the Joint Audit Report.

7. In the event the AOCs fail to comply with the requirements set forth in paragraph 6 of this Consent Decree, then the FCC, PUCO and WPSC reserve the right to pursue legal action against the AOCs. Likewise, if the AOCs comply with the requirements in paragraph 6(a) of this Consent Decree, then the accounting treatments, procedures and documentation described in paragraph 6(a) shall be regarded by the FCC, PUCO and WPSC, as presumptively reasonable and lawful. The FCC, PUCO and WPSC, however, reserve the rights they have under the law to change accounting prospectively and retroactively as long as no penalty attaches to such retroactive application. Likewise, the AOCs shall be authorized to make changes to their accounting treatments, procedures and documentation, including those required in this Consent Decree, to implement or reflect changes in the law or rules and shall not thereby be regarded as being in violation of any part of this Consent Decree.

(4.) ASI will keep written documentation of the translation from bill lines to Part 32 accounts and Part 64 cost pools. This documentation will include:

(a.) an explanation of the work included in each bill line and

(b.) an explanation of how and why ASI allocates the costs between regulated and nonregulated operations, including the reasons for the selection of particular account(s) and/or cost pool(s). In developing this explanation, the fact that a technology can be deployed in the public switched network is not a sufficient criterion, in and of itself, to determine whether work on that technology is regulated or nonregulated activity. For example, costs for the development of new products or services that are not specifically related to the AOCs' regulated or nonregulated services shall be assigned to the appropriate shared cost pool. Beginning with 1995 work profiles and bill lines, documentation shall be maintained for every change in classification of all bill lines, the date of such change, and support for the necessity of the change.

(5.) ASI will maintain a file of AOC benefit verification forms. These forms will indicate the benefit of the activity to AOC regulated services and will include a signed statement from the appropriate AOC confirming the benefit or benefits to that AOC as listed therein. In addition to information required by other ASI procedures, the benefit should include, as appropriate, an analysis of (1) potential revenue losses or future costs if the project is not undertaken compared to costs expected to be incurred; (2) additional regulated revenues expected to be generated compared to costs incurred; (3) improvement in the quality of AOC regulated services; (4) other benefits; or (5) a statement explaining why none of the above was included. The file should also include the original form and all subsequent updates.

(6.) ASI's accounting practices will provide that all data processing common costs are included in the development of fully allocated costs to nonowner affiliates.

b. Regarding the timing and verification of such accounting practices, the AOCs agree as follows:

(1.) Ameritech will complete an implementation plan for improved accounting practices within 60 days of signing this agreement. ASI will have the stated accounting practices in place within 120 days of signing this agreement.

(2.) Ameritech will have an independent auditor perform a compliance audit two years after the signing of this Consent Decree. The audit will focus on Ameritech's compliance with the provisions of this Consent Decree. Auditors

8. In light of the AOCs' covenants and representations contained in paragraph 6 of this Consent Decree, and in express reliance thereon, the FCC, PUCO and WPSC, respectively agree to issue final orders formally adopting this Consent Decree (the "Consent Decree Orders") without change, addition or modification and without a finding of wrongdoing, violations or liability by the AOCs and further agree not to begin, on the motion of any such Commission or its staff, any proceeding formal or informal, concerning matters that were the subject of the Joint Audit. However, nothing herein shall preclude the FCC, PUCO or WPSC from using the information underlying the findings and observation in Attachment A for other lawful regulatory purposes provided that the AOCs shall have all opportunities afforded by law to contest that use and that information. The Parties agree that Attachment A shall not be released unless and until this Consent Decree is adopted by final orders of the FCC, PUCO and WPSC.

9. The AOCs admit the jurisdiction of the FCC, PUCO and WPSC to adopt this Consent Decree.

10. The AOCs waive any rights they may have to judicial review, appeal or rights otherwise to challenge or contest the validity of the final order of the FCC, PUCO or WPSC adopting this Consent Decree, provided those Commissions adopt this Consent Decree without change, addition or modification.

11. The Parties agree not to engage in conduct inconsistent with the terms of this Consent Decree. The Parties may comment publicly, however, on the nature of the Consent Decree, and the merits of their respective positions as described more completely in Attachment A, after it has been adopted by the FCC, PUCO, and WPSC.

12. Adoption by the FCC, PUCO and WPSC of this Consent Decree shall conclude action on the Joint Audit without a finding of wrongdoing, violations or liability by the AOCs.

13. It is understood that the AOCs' agreement to this Consent Decree does not constitute an adjudication of any factual or legal issues or an admission by the AOCs of wrongdoing, violations or of any inconsistency between their position, on the one hand, and, on the other hand, (i) the Communications Act of 1934, as amended, and the rules and policies of the FCC, (ii) Title 49, Ohio Revised Code, as amended, and the rules and policies of the PUCO, and (iii) ch. 196, Wis. Stats., as amended, and the rules and policies of the WPSC. As a result, the AOCs and their affiliates shall not be precluded or estopped from litigating de novo any and all of the issues subject to this Consent Decree in any fora except as provided herein.

14. The Parties agree that this Consent Decree and the Consent Decree Orders may not be used in any fashion by any of the Parties to this Consent Decree in any legal proceeding except as set forth in this Consent Decree.

15. The Parties agree that the effectiveness of this Consent Decree is expressly contingent upon the FCC, PUCO and WPSC concluding action on the Joint Audit, issuance of Consent Decree Orders as described herein, and compliance by the AOCs with the terms

of this Consent Decree. If this Consent Decree is not signed by the AOCs and the FCC, PUCO and WPSC, or is otherwise rendered invalid by any court of competent jurisdiction, it shall become null and void and may not become part of the record in this proceeding.

16. If the FCC, PUCO or WPSC brings an action in any court of competent jurisdiction to enforce the terms of the Consent Decree Orders or this Consent Decree, the AOCs agree that they will not contest the validity of either the Orders or the Decree, will waive any statutory right to contest the validity of the Consent Decree Orders or this Consent Decree through a trial de novo, and will consent to a judgment incorporating the terms of this Consent Decree provided, however, that the FCC, PUCO and WPSC have complied with all of their obligations under the Consent Decree.

17. This Agreement may be signed in counterparts.

William F. Caton

William F. Caton
Acting Secretary,
Federal Communications Commission

Ameritech Telephone Operating Companies

Ohio Public Service Commission

Wisconsin Public Service Commission

June 23, 1995

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